

Message Text

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PAGE 01 PARIS 19420 01 OF 02 251845Z

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ACTION EUR-12

INFO OCT-01 ISO-00 EB-07 CIAE-00 COME-00 INR-07 LAB-04

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PRS-01 USIA-06 SAJ-01 OPR-02 JUSE-00 CIEP-01 OMB-01

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P 251832Z JUL 75

FM AMEMBASSY PARIS

TO SECSTATE WASHDC PRIORITY 1665

LIMITED OFFICIAL USE SECTION 01 OF 02 PARIS 19420

E.O. 11652: N/A

TAGS: EIND, FR

SUBJ: DIFFICULTIES OF AMERICAN STANDARD SUBSIDIARY
IN FRANCE

1. SUMMARY - AMERICAN STANDARD RADIATOR COMPANY HAS
DECIDED TO TURN ITS FRENCH SUBSIDIARY OVER TO COURT
APPOINTED ADMINISTRATOR WHICH IS ALMOST CERTAINLY PRELUDE TO DISSO-
LUTION OF MAJOR FRENCH INDUSTRIAL ENTERPRISE EMPLOYING
5100 WORKERS. CHEF DU CABINET OF MINISTRY OF FINANCE
HAS EXPRESSED TO CHARGE HIS DEEP CONCERN OVER THIS
DECISION. EMBASSY DISCUSSION WITH AMERICAN STANDARD
EXECUTIVES REVEALS THAT DECISION IS IRREVOCABLE DUE
TO PROTRACTED PERIOD OF HEAVY FINANCIAL LOSS WITH NO
HOPE IN SIGHT FOR RESTORATION OF VIABILITY OF FRENCH
SUBSIDIARY . WHEN DECISION IS ANNOUNCED PUBLICLY
ON JULY 28 WE FORESEE HIGHLY ADVERSE REACTION FROM
PRESS, LABOR UNIONS, AND OTHER ELEMENTS IN FRENCH
SOCIETY. END SUMMARY.

2. IDEAL STANDARD S.A. OF PARIS, SUBSIDIARY OF
AMERICAN RADIATOR STANDARD SANITARY CORP. OF NEW
YORK, EMPLOYS 5,100 WORKERS IN FIVE FRENCH FACTORIES
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PAGE 02 PARIS 19420 01 OF 02 251845Z

PRODUCING BOILERS, RADIATORS AND SANITARY WARE. FOR

PAST TWO YEARS FRENCH COMPANY HAS BEEN IN INCREASINGLY PERILOUS FINANCIAL CONDITION DUE TO CONSTRUCTION SLUMP HERE, OBSOLESCENCE OF BOTH PLANT AND ITS PRODUCTS, AND SEVERE OVER-CAPACITY IN FRENCH RADIATOR INDUSTRY. COMPANY SERIOUSLY CONSIDERED GOING INTO BANKRUPTCY LAST FEBRUARY WHEN FRENCH AUTHORITIES AND MILITANT UNIONS REFUSED TO PERMIT DISCHARGE OF 1,500 REDUNDANT WORKERS, BUT WAS PERSUADED TO REMAIN IN OPERATION TEMPORARILY IN RETURN FOR FRENCH GOVERNMENT DECISION TO LIFT PRICE CONTROLS ON SOME OF ITS PRODUCTS. THIS CONCESSION FAILED TO TURN COMPANY AROUND, HOWEVER, AND OPERATING LOSSES FOR FIRST SEMESTER OF 1975 WERE IN EXCESS OF \$10 MILLION.

3. IN FACE OF THESE LOSSES, AND WITH NO HOPE IN SIGHT FOR RESTORED VIABILITY EVEN IF DISMISSAL WERE AUTHORIZED AND MARKET SHOULD IMPROVE, BOARD OF AMERICAN STANDARD HAS DECIDED TO PLACE IDEAL STANDARD IN HANDS OF COURT-APPOINTED ADMINISTRATOR. THIS ACTION WAS TAKEN ON JULY 25. TASK OF ADMINISTRATOR, WHO HAS EXCLUSIVE MANAGEMENT CONTROL AND REPORTS TO COURT, WILL BE TO TAKE SUCH ACTIONS AS ARE NECESSARY TO KEEP COMPANY ALIVE OR TO LIQUIDATE IF THERE IS NO OTHER COURSE AVAILABLE.

4. AFTER FOREGOING DECISION WAS COMMUNICATED BY AMERICAN STANDARD PRESIDENT MARQUARD TO FINANCE MINISTRY CHEF DE CABINET DELORME ON JULY 24, DELORME PHONED CHARGE AND EXPRESSED DEEP CONCERN. HE ASKED THAT EMBASSY DISCUSS PROBLEM WITH AMERICAN STANDARD OFFICIALS TO ASCERTAIN WHETHER THERE WERE ANY CIRCUMSTANCES UNDER WHICH DECISION MIGHT BE REVERSED. IN MEANTIME AMERICAN STANDARD EXECUTIVES MET AGAIN WITH GOF OFFICIALS ON MORNING OF JULY 25 IN UNSUCCESSFUL ATTEMPT TO FIND SOLUTION. FRENCH OFFICIALS WERE UNABLE TO COME FORWARD WITH ANY COMMITMENT OF GOVERNMENTAL ASSISTANCE AND AMERICAN STANDARD WAS UNWILLING TO POUR ANY MORE CASH DOWN THE DRAIN BEYOND LAST MINUTE GESTURE OF MEETING 1.5 MILLION DOLLARS IN CURRENT PAYROLL COSTS. WHEN EMBOFF MET WITH LIMITED OFFICIAL USE

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PAGE 03 PARIS 19420 01 OF 02 251845Z

AMERICAN STANDARD VICE PRESIDENT LATER IN DAY HE WAS INFORMED THAT DECISION WAS IRREVOCABLE AND COURT ADMINISTRATOR ALREADY APPOINTED.

5. AMERICAN STANDARD HAS SHOWN US DRAFT OF PRESS STATEMENT IT PLANS TO RELEASE IN FRANCE AND ELSEWHERE IN EUROPE JULY 28. STATEMENT IS DIPLOMATICALLY WORDED AND EXPRESSES GRATITUDE TO FRENCH GOVERNMENT AGENCIES

AND CREDITORS FOR THEIR COOPERATION OVER RECENT MONTHS. AT OUR SUGGESTION, STANDARD PR CONTRACTOR HAS AGREED TO COORDINATE TEXT WITH MINISTRY OF FINANCE.

6. WHEN THIS NEWS REACHES THE STREET ON MONDAY

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PAGE 01 PARIS 19420 02 OF 02 251842Z

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TO SECSTATE WASHDC PRIORITY 1666

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MORNING WE FORESEE THAT IT WILL GENERATE WIDESPREAD HOSTILE REACTION, PARTICULARLY FROM LABOR UNIONS, BOTH AGAINST AMERICAN STANDARD AND U.S. MNC'S GENERALLY. WORKERS IN IDEAL STANDARD PLANTS HAVE ALREADY ENGAGED IN SEVERAL VIOLENT ACTIONS SINCE LAST DECEMBER AGAINST COMPANY'S EXECUTIVES AND PHYSICAL FACILITIES. AMONG OTHER INCIDENTS, IDEAL'S SCOTTISH MANAGER HAS BEEN BEATEN UP, PLANTS HAVE BEEN FORCIBLY SEQUESTERED FOR SHORT PERIODS AND ONE WAREHOUSE HAS BEEN DESTROYED BY FIRE. IMMINENT HOLIDAY SEASON MAY CUSHION REACTION SOMEWHAT BUT WE THOUGHT IT ADVISABLE TO ALERT AMERICAN CHAMBER OF COMMERCE HERE TO POSSIBILITY OF REACTION SIMILAR

TO THAT WHICH FEATURED WELL-KNOWN LIPS AFFAIR OF
TWO YEARS AGO.

7. AMERICAN STANDARD VICE PRESIDENT HAS EXPRESSED
TO US HIS CONVICTION THAT UNLESS GOF IS PREPARED
TO MAKE SUBSTANTIAL INFUSIONS OF CAPITAL INTO
COMPANY OVER INDEFINITE PERIOD THERE IS NO CHANCE OF
ITS SURVIVAL UNDER CURRENT OR PROJECTED MARKET
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PAGE 02 PARIS 19420 02 OF 02 251842Z

CONDITIONS.

8. AFTER FOREGOING PREPARED CHARGE RECEIVED
REQUEST FROM MINISTRY OF FINANCE THAT PRESS RELEASE
BE DELAYED IF POSSIBLE UNTIL AUGUST 1. WE ARE
ATTEMPTING TO CONVEY THIS REQUEST TO AMERICAN
STANDARD OFFICIALS IN BRUSSELS.
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